

FUND 506

HEALTH BENEFITS TRUST FUND

Board of Supervisors' Adjustments

The following funding adjustments reflect all changes to the FY 2003 Advertised Budget Plan, as approved by the Board of Supervisors on April 29, 2002:

- ◆ The Board of Supervisors made no changes to the FY 2003 Advertised Budget Plan.

The following funding adjustments reflect all approved changes to the FY 2002 Revised Budget Plan from January 1, 2002 through April 22, 2002. Included are all adjustments made as part of the FY 2002 Third Quarter Review:

- ◆ A net increase of \$5,919,883 based on employee enrollment choices and one-time high cost claims in September/October for the self-insured health insurance plan. This increase in expenditures is completely offset by a corresponding revenue adjustment.

County Executive Proposed FY 2003 Advertised Budget Plan

Purpose

Fairfax County Government offers its employees and retirees health insurance options including managed care, HMO options providing choices and competitive premium rates, and sharing of excess retiree costs, to ease the burden on active employees and to make the County a single risk pool. The County health insurance alternatives include a self-insured multi-option plan and vendor administered Health Maintenance Organizations (HMOs) for both active employees and retirees. The County's current health insurance plan design is a result of revisions enacted in FY 1997. The County offers a competitive program of health care coverage for employees and retirees.

Fund 506, Health Benefits Trust Fund, is the administrative unit for the self-insured alternative. For the self-insured plan, the County pays only for claims and third party administrative fees. The cost to fund expenses is covered by premiums from active employees, the employer and retirees and retention of interest earnings.

The self-insured plan includes multi-option choices. The first option consists of managed care with a point of service plan (POS) combining the best features of a health maintenance organization (HMO) and a traditional indemnity plan. The second option provides the choice of a preferred provider plan (PPO) combining an in-network benefit and an out-of-network benefit for those employees and retirees who live outside of the managed care network area.

After slow medical cost growth in the early to mid 90's, spending for health care has been steadily increasing in recent years. Nationwide, cost growth is projected to increase an average of 10 to 14 percent per year. The County health care experience has closely mirrored the national trend. The primary factors in the escalating cost growth are increased utilization and the rising costs of prescription drugs. It is anticipated that the cost to fund medical and prescription claims expenditures will nearly double.

As a result of the projected increase in medical and prescription claims, the County's self-insured plan will raise premiums by 20 percent effective January 1, 2003 for the final six months of FY 2003. This will allow the fund to remain solvent and maintain an ending balance to offset unanticipated increases in claims costs.

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The 20 percent increase in premiums results in an average monthly increase of \$8.27 for those employees enrolled as an individual in the managed care alternative of the self-insured plan. In addition, the impact on those employees enrolled under the family plan in the managed care alternative of the self-insured plan results in a monthly increase of \$39.53 for employees. It should be noted that the County continues to contribute 85 percent of the total premium for employees enrolled as an individual and 75 percent of the total premium for employees enrolled under either the two-party or family plan.

FY 2003 Initiatives

- ◆ Continue to monitor national health insurance trends particularly as they relate to the County's self-insured plan. Utilize the data to make the necessary revisions to the plan to keep the fund solvent and effective.
- ◆ In consideration of the projected continued escalation of cost growth, and the need to provide a proactive and comprehensive benefits program, staff will continue to explore alternatives for effectively managing the health insurance variables. Available alternatives include managing choices through cost shifting and exploring increased managed care of prescription drug claims.
- ◆ Continuation of the calendar year enrollment process, in order to maintain the same cycle as other local employers, including the Fairfax County Public Schools and the Federal government. It is intended that this will allow County employees with spouses employed by these other employers to make comprehensive decisions about their health care options.
- ◆ A 20.0 percent premium increase beginning January 1, 2003. The increase is necessary to maintain a revenue stream that will cover the increasing cost of health claims.
- ◆ Maintain an ending balance as a percent of claims paid of approximately 10 percent to ensure that the fund is adequate to support expenditures. It should be noted that an ending balance of 10 to 15 percent of claims paid is targeted based on industry standards.

Funding Adjustments

The following funding adjustments from the FY 2002 Revised Budget Plan are necessary to support the FY 2003 program:

- ◆ An increase of \$9,227,349 primarily due to a 10 percent cost growth assumption and anticipated employee participation in the plan. It should be noted that based on year-to-date cost growth, utilization data and employee enrollment information, an expenditure adjustment will be required for the fund at the *FY 2002 Third Quarter Review*. This adjustment accurately aligns the *FY 2002 Revised Budget Plan* with the projected expenditures for the fund.

The following funding adjustments reflect all approved changes in the FY 2002 Revised Budget Plan since passage of the FY 2002 Adopted Budget Plan. Included are all adjustments made as part of the FY 2001 Carryover Review and all other approved changes through December 31, 2001:

- ◆ There have been no revisions to this fund since the approval of the FY 2002 Adopted Budget Plan.

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FUND STATEMENT

Fund Type G50, Internal Service Funds

Fund 506, Health Benefits Trust Fund

	FY 2001 Actual	FY 2002 Adopted Budget Plan	FY 2002 Revised Budget Plan	FY 2003 Advertised Budget Plan	FY 2003 Adopted Budget Plan
Beginning Balance	\$3,414,163	\$4,126,924	\$5,131,741	\$5,674,139	\$3,274,423
Revenue:					
Employer Share of Premiums- County Payroll	\$24,179,730	\$25,622,175	\$27,829,627	\$30,526,909	\$30,526,909
Employee Share of Premiums- County Payroll	7,069,798	7,338,260	8,138,878	9,453,466	9,453,466
Employer Subsidy from HMOs	363,203	388,584	238,153	0	0
Employee Subsidy from HMOs	104,999	112,722	68,587	0	0
Other Funds Premiums	6,996,001	7,119,614	8,166,224	9,574,280	9,574,280
Interest Income	551,611	600,000	246,618	350,000	350,000
Administrative Service Charge	20,928	11,000	24,435	11,000	11,000
Total Revenue	\$39,286,270	\$41,192,355	\$44,712,522	\$49,915,655	\$49,915,655
Total Available	\$42,700,433	\$45,319,279	\$49,844,263	\$55,589,794	\$53,190,078
Expenditures:					
Benefits Paid	\$34,366,140	\$37,238,076	\$42,607,037	\$46,507,199	\$46,507,199
Administrative Expenses	2,416,188	2,731,568	2,491,290	2,738,060	2,738,060
Cost Containment	51,813	100,000	52,310	55,000	55,000
Incurred but not Reported Claims (IBNR)	734,551	580,313	1,419,203	577,047	577,047
Total Expenditures	\$37,568,692	\$40,649,957	\$46,569,840	\$49,877,306	\$49,877,306
Total Disbursements	\$37,568,692	\$40,649,957	\$46,569,840	\$49,877,306	\$49,877,306
Ending Balance:					
Fund Equity	9,323,885	10,207,959	8,885,770	11,386,366	9,501,166
IBNR	4,192,144	5,538,637	5,611,347	5,673,878	6,188,394
Ending Balance	\$5,131,741	\$4,669,322	\$3,274,423	\$5,712,488	\$3,312,772